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Economic Conditions
Governmental Finance
United States Securities

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Declaration of National Emergency

THE past month has been a period of grave concern and anxiety among the American people, due to the march of events abroad and on the seas, which made it appear inevitable that the policy of this country in relation to the war would soon need to be redefined. The sentiment of the people has been torn between two desires. They desperately want Great Britain and her allies to win the war, and they want if possible to keep the United States out of the conflict. As long as the two desires seem compatible, there can be the highest degree of unity and cooperation in furthering the national policy. But as events threaten to make them incompatible the unanimity of sentiment tends to weaken; for apart from those whose minds are made up on opposing sides, many sincerely devoted and patriotic people find in their own minds an agonizing conflict.

This condition of divided opinion is one which unquestionably will pass. Out of it, in the course of events, will come a new unity of sentiment. President Roosevelt has taken leadership by proclaiming that an unlimited national emergency exists. Through this declaration he will assume powers which otherwise he would not be entitled to exercise, but this is not the most important aspect of his decision. The vital matter is that he has redefined the national policy and goal, and in terms upon which all can unite in loyal support and with undivided energies.

No organization, whether it is a ball club, a business enterprise, or a national government, can function at full efficiency if its energies are repressed by divided counsel, by lack of clear comprehension of policy and objective, or by indecision. The basis of efficiency is unity, teamwork, and coordination. The whole country earnestly desires to attain that unity and coordination, which will give the defense effort and the program of aid to Britain a fresh forward speed and drive.

The demands which the national policy makes upon the business community, upon the public authorities, and upon all elements of the population, are not difficult to define. They are for more production, faster production, for full priority for the defense effort, and for the merging of individual interests into the general welfare. It is not always as easy to apply the principles as to state them, but the essentials are clear. The responsibility of management and labor is to cooperate in efficient and unceasing production. The duty of people as consumers is to economize, so that the defense effort may have a true prior call upon the national production and income. The duty of the Government is to plan and coordinate, to resolve for the public benefit conflicts between the general interest and the interests of special groups, and to carry out the financing of the program on sound principles. In the Government, chiefly, rests the power of leadership to get the people pulling together, and to make the program effective.

General Business Conditions

One year has elapsed since President Roosevelt on May 16, 1940 sent to Congress the special message, requesting new Army and Navy appropriations of $2,400,000,000, which inaugurated the defense program. Within the year the program has grown to more than $40,000,000,000, including the appropriations for aid to Great Britain and other democracies. It is still expanding, and the volume of production and trade has risen to the highest level, by a wide margin, in our history. The decline in industrial output due to the strikes in April was quickly recovered, and the production indexes are moving up again.

It is not easy for even the most experienced business observers to keep abreast of changes of such speed and magnitude. Steady expansion in ideas of the demand for materials and labor, fresh appraisals of the effect on prices and normal business activity, and reconsideration of the appropriate public and private policies, have all been required. Within the month officials in charge of the program have found that plans and estimates of require-

ments made only a few months ago are now inadequate. The Dunn report on steel requirements has been revised. It now indicates that demand will exceed producing capacity in both 1941 and 1942, and would be even larger if the steel-consuming industries could get more skilled labor. Iron Age, the trade magazine, forecasts priorities on steel shapes and plates.

The Office of Production Management has announced that all the aluminum available in 1942 will be needed for defense requirements, despite a program for further huge increases in production. President Keller of the Chrysler Corporation has expressed the opinion that it will be impossible to obtain materials to produce the allotted 4,224,000 automobiles in the next model year and a reduction in the quotas is widely expected. This is due chiefly to prospective shortages of metals after filling defense needs, and other consumers' durable goods will be affected in like manner.

Obviously this country has the resources to provide both guns and butter to a greater extent than any other, and will come far closer to that objective. The sacrifices to be asked of consumers, if fewer automobiles, radio sets, refrigerators and similar articles are made, will be hardly worthy of the term. People are prepared to bear them cheerfully, and should understand that other interferences with normal business appear to be inevitable. Still others, perhaps avoidable if proper measures are taken, will be forestalled only by early understanding and prompt action.

The Transportation Situation

The transportation situation is coming in for examination. In forming a 2,000,000 ton shipping pool, to facilitate aid to Great Britain and assure a sufficient import movement of strategic materials, 40 ships are being taken from intercoastal services. Other tonnage from the coastwise routes will be added. This diversion will make new demands on the railroads. Moreover, strategic materials from the Far East which were formerly brought around to Atlantic ports will be landed in increasing degree on the Pacific coast, to be brought east by rail.

Another shipping development is the diversion of 50 tankers from the fleet carrying petroleum products from the Gulf to Atlantic ports. The Eastern seaboard is dependent upon tanker service for more than 95 per cent of its fuel oil and gasoline supplies, and the reduction of the fleet by almost one-fifth will make the supply problem one of great difficulty, which the petroleum industry and the O. P. M. are jointly trying to solve.

The railroads are moving to take care of the demands that will fall upon them. Additions to the car supply in the twelve months ended October 1941 will be close to 100,000, and the number of cars available at the Fall peak this year will be 1,617,000. In the Fall of 1939, when the peak of weekly loadings was 856,000, cars available totaled 1,491,000, and there were spotty, although no considerable, shortages. Loadings in the week ended May 17, this year, totaled 861,000. The seasonal rise next Fall may produce a peak of 950,000 or higher.

The railroads expect to handle this traffic with no substantial car shortages, but the margin of safety evidently will be thin. The Association of American Railroads has recommended that its members buy 270,000 cars for delivery between October 1941 and October 1943. In 1930, the last year in which freight car loadings were as much as they will be this year, the railroads had well over 2 million cars, but they had a smaller capacity and were turned around less quickly than is now the case.

Prices Rise Further

Mr. Henderson's organization continues its close scrutiny of the effects of the defense program in advancing prices, and he continues to receive the cooperation of the business community. The rise in basic commodity prices, from early February to the present, has been sharp and almost uninterrupted. The shipping situation and farm legislation have been influential, and both are discussed subsequently in this Letter.

To many observers the heavy supplies of basic commodities, both foods and industrial raw materials, domestic and imported, have seemed an almost impregnable barrier to inflationary influences. Supplies in most cases are still ample, in some they constitute a surplus. Prices were low to begin with, and it stretches the term to call every advance inflationary. The part that forward buying and stocking for inventory have played in the price advances is recognized. However, greater prospective demands, together with the spread of wage increases through the industries, the higher loans granted to farmers, priorities, and shortages of shipping space have kept fears of a price spiral alive.

During the past month margin requirements have been raised to check undesirable speculation in certain imported staples; cotton yarns have been added to the commodities on which price limits are fixed; and cooperative measures with producers in other lines have been taken. This is all to the good, provided it leaves the stimulus to production unimpaired. Nevertheless, Mr. Henderson may wonder, as many others do, how long his efforts can continue fully effective against the contrary influences, including the rise in industrial costs due to higher wages, and the advance in food prices which raises the cost of living. Living costs rose 1 per cent between mid-March and mid-April according to the Department of Commerce. This was the greatest monthly advance yet, and was due to higher food costs.

These developments emphasize the need of consistent policies by all elements in the population to restrain price-raising influences. It is natural that people should look after what they conceive to be their own interests, but regrettable that the definition of self-interest is not broad enough to cover the general welfare, for an advantage gained by one group over others is never more than temporary. The Government must give the lead as to policy, chiefly by taxation and borrowing to absorb a sufficient share of the increased income into the Treasury, but also by resisting demands that add to non-defense expenditures. The contribution of the people is to economize, to refrain from hoarding, to avoid going into debt except for productive purposes, to withhold demands of any kind whose satisfaction would impair the defense effort, and to place their savings directly or indirectly at the disposal of the Government.

Progress of Defense Financing

Defense expenditures for May 1 - 26 were at the monthly rate of approximately $900 millions, compared with $761 millions in April. Probably by the opening of the new fiscal year on July 1 they will be at a level of practically $1 billion per month, or $12 billions per year. In view of the steady acceleration of the program, Washington officials are predicting that the Treasury estimate of defense expenditures for the fiscal year 1942, which less than two months ago was raised to $12 billions, will have to be further revised upward. The one thing certain is that the total will be as great as it is practicable to spend. The record of the defense industries to date, the new plants nearing production, and the additional construction now being started, all point to greater spending as the year goes on.

If defense expenditures exceed $12 billions, the total budget, which has been placed at $19 billions, including non-defense expenditures of $7 billions, will be larger by the amount of the increase in defense estimates. The figure will compare with total expenditures for the 1941 fiscal year of approximately $13.2 billions, of which $6.5 billions is for defense.

Tax receipts for the 1942 fiscal year are estimated at $9.2 billions on the basis of existing taxes and the present level of national income. The proposed new taxes are designed to produce $2.6 billions additional in 1942 and $3.5 billions annually thereafter. Present and proposed taxes together, therefore, should produce $11.8 billions in the fiscal year 1942, but with rising business activity and higher corporate and individual incomes, the actual yield may be greater. In any case, total receipts will far surpass the previous high records, which were $6.7 billions in 1920 and an estimated $7 billions this year.

If only the officially estimated receipts of $11.8 billions should be realized next year, and if total expenditures should be no more than $19 billions, the indicated deficit of $7.2 billions would be only $1 billion larger than that estimated for this year. About $1.5 billions of next year's deficit can be financed by the direct sale of government obligations to the social security and other trust funds, leaving $5.7 billions to be borrowed through the sale of defense savings bonds and open market offerings. In addition, at least $1 billion, not included in the budget, is to be borrowed in the open market by government credit agencies on their guaranteed obligations. Because of the difficulty of making close estimates of either tax receipts or defense expenditures, however, the net deficit cannot be determined with much accuracy for some time.

Sale of National Defense Obligations

First reports of the sales of the new defense savings bonds, introduced on May 1st, have precipitated discussion as to whether the results are satisfactory or disappointing, which obviously depends greatly upon how expectations were scaled. Secretary Morgenthau has expressed himself as well-pleased. For the first twenty-four days sales totaled approximately $348,000,000. They included $92,000,000 of Series E, the discount bond which replaces the earlier "baby bond," and purchase of which is limited to individuals and to $5,000 during a single calendar year; $37,000,000 of Series F, the discount bonds yielding a lower return, which may be bought by either individuals or corporations (except commercial banks) up to $50,000 during a single year; and $219,000,000 of Series G, which pay 2½ per cent interest and may be bought at par by individuals or corporations (except commercial banks) up to $50,000 during a single year. In addition, over $2,800,000 of savings stamps, exchangeable for Series E bonds, were sold.

It would be difficult to project estimates of the annual sales of defense bonds from early figures. Doubtless the first month's total included sales to many buyers who took their maximum allotment permitted by law, and therefore cannot purchase again until next year. On the other hand, the initial results can hardly reflect to any large extent the intensive campaign just getting under way to encourage systematic saving and investing in these securities.

Aside from the money raised for the Treasury, the important objective of the savings bond campaign is to induce people to limit their spending, in order to lessen the demand for goods whose production is curtailed by the defense program. To reach this objective the subscriptions should come out of current income, and especially from the incomes of those whose purchasing power is being increased by

the Government's spending. Of these factory workers are the most important group. It will take time to organize the canvass, and to persuade people who have never owned an interest-bearing security of the advantage of having an income from savings and resources for the future, as against using their wages for more consumer goods. All the agencies cooperating must stress the wisdom of saving during the boom, in order to be able to spend after the boom subsides.

In its open-market financing the Treasury has obtained another large over-subscription to a public offering, on slightly more favorable terms to the borrower than those of the last financing. Offering of $600,000,000 in new 2½ per cent 15-17 year bonds brought subscriptions of $8,268,000,000 when the books were closed after one day, and allotments were cut to 8 per cent. The bonds promptly rose to a premium of over 2½ points. This issue has four years longer maturity than the 2½ per cent bonds sold last March, and is the longest-term cash offering since the sale in December 1938 of 22-27 year tax-exempt 2¾s.

At the same time, the Treasury also offered to holders of $834,000,000 in 3¼ per cent bonds maturing August 1, 1941 the option to exchange such bonds, either for the new bonds or for ¾ of 1 per cent Treasury notes maturing March 15, 1943. About $788,000,000 of the maturing issue was exchanged for the new bonds and $1,000,000 for the notes.

Some people may say that since money is raised so easily and on terms so favorable to the Treasury there is no need to push the savings bonds or to increase taxes as much as proposed. The answer to this argument, however, has been given above. Doubtless a fair part of the new issue will lodge in the commercial banks, and the effect will be to increase bank credit outstanding and bank deposits in circulation, whereas what is wanted is to induce subscriptions to new issues by people who, in order to pay for them, will have to save and reduce consumption.

Progress on the Tax Bill

The proposed revenue bill has been advanced through public hearings, held for more than a month by the House Ways and Means Committee, and will be introduced soon after this writing. It will necessarily be a long and complicated bill, because of the many different types of taxes which it will affect. The schedules submitted by the Treasury call for a yield of about $1.3 billions from increases in individual income taxes, $1.3 billions from increases in corporation income or surtaxes and excess profits taxes, and $1 billion from new or increased excise, manufacturers', gift and estate, and miscellaneous taxes.

The trend of public comment since the first Treasury and Congressional proposals were made public in April, and the testimony of many witnesses at the hearings, have been largely to the effect that from the viewpoint of repressing inflationary influences the proposals lean too heavily upon taxes on business and upon the middle and higher income brackets; conversely, that they fail to reach, as much as desirable, those whose incomes are being increased by the defense program. Evidence on this point was given in the discussion in the last issue of this Letter. Before the Ways and Means Committee Marriner S. Eccles, Chairman of the Federal Reserve Board, advocated among other proposals a lowering of the individual income tax exemptions and credits, and Leon Henderson, Administrator of Price Control, urged higher excise taxes on types of consumers' durable goods whose production may compete with the national defense program.

Despite this testimony, modification of the Treasury proposals during the month has taken the form of changes designed to raise $300,000,000 more from the excess profits tax than was first contemplated. In short, a still greater diversion of business earnings to the Treasury is proposed, instead of a direct diversion of consumers' income.

Taxes and Savings

The major question to be considered about the tax program is whether the income which is to be diverted into the Treasury will come predominantly from funds normally saved by tax payers, or from their normal spending. If it comes from normal spending the taxes will be reducing the demand for non-defense goods, and thus have direct anti-inflationary effects. If it comes from normal savings the taxes will be draining the community of funds normally added to capital, which supports the production of the country and upon which progress depends.

Undistributed business earnings go into the capital fund; and the other main source of its replenishment and addition is from the investments, both in industries and in projects for social welfare, of people in the middle and upper income brackets, who naturally can save more for investment purposes. The heavily increased taxes to be levied upon these brackets will almost certainly be paid first out of the funds that otherwise would be available for investment, and reduction in purchases of consumer goods will come second. Yet the main purpose of taxation for defense, having in mind the inflationary danger, should be to get economy in current consumption.

Unquestionably the funds which become available for investment should now be placed largely in government securities, or in industries or projects contributing to the defense program. The consequences of taxing them away should be considered. Taxation of the

normal addition to the capital fund is a permanent loss to the community. The industries will need the capital to meet the post-war readjustments, and the community will need it to resume progress and build up living standards again.

The forthcoming tax bill needs to be studied in this light, and from the viewpoint of its effects upon the incentive and ability of the industries and people to produce. It will be time to comment on the application of the principles after the terms of the bill are known. Of course there are other principles to be considered, and it is not to be expected that a perfect and equitable program can be devised. One other principle, which we have so far taken for granted, is to get the money. The most fundamental principle of all, however, is that the proportion of taxes to borrowing, and the distribution of the tax burden, should be in accord with the general welfare, and not to serve the interest of one group or another.

Higher Loans on Farm Commodities

The Bankhead-Fulmer Act, under which the Commodity Credit Corporation is required to offer loans to growers on five basic farm crops at 85 per cent of the "parity price," was approved by President Roosevelt on May 26. Higher loans have been expected in the markets since early this year, and in the past three months the price of wheat at the terminals has risen from $0.90 to $1.00, cotton from 10¼c to 13c, and corn from 62c to 74c. The new loan rates will be even higher than these prices, and substantially higher than any other loans offered during the eight years of the A.A.A. program.

The "parity prices" are calculated according to a formula set forth in the original farm relief act of 1933. They are the 1909-14 average prices of each product (tobacco 1919-29), adjusted for changes in prices of things which farmers buy; in other words, they are the prices at which each farm product would have the same buying power over other products as in 1909-14. The parities change as prices of things bought change.

According to calculations based on April 15 parities, the 85 per cent loan on wheat will be approximately 97c on the farms compared with 64c on last year's crop, on corn it will be 70c compared with 61c last Fall, and on cotton 13.60c as against 8.90c. In figuring the equivalents at terminal markets, transportation costs are added to these farm prices. Prices of rice and tobacco, the other commodities included in the new Act, are not affected, since they were already selling at or above 85 per cent of parity.

In approving the Act, President Roosevelt made a statement saying that "it reflects the Government's objective for the past eight years. It reflects the fact that the farmers did not have and have not as great a share of the national income as other groups." The representatives of the farm organizations have maintained that the cotton and wheat markets particularly are depressed by the loss of export sales; and that the cotton and wheat growers need higher prices and a larger income because prices of the things they buy are tending higher and wages of farm labor are increasing. They point to the support of prices of pork, dairy and poultry products, and to the purchases of dried and canned foods for Great Britain and for relief distribution.

The opponents of the measure point out that the cotton and wheat markets have been supported against the loss of export sales by the existing government loans, and growers' income supplemented by government payments; and no responsible person had suggested that the loans be withdrawn or decreased.

Inflationary Influences

The main question, however, is whether the measure is in the public interest, and is appropriate in the present situation. The public is concerned because the higher loans add to the inflationary influences. They raise prices of wheat, corn and cotton to levels which would almost certainly not be reached under the natural influence of supply and demand. The higher price of corn, particularly, will raise the cost of producing livestock, dairy and poultry products.

In these ways the higher loans increase the cost of living, and tend to frustrate the effort to keep other prices down. Industrial workers will have new arguments for wage increases; and in due course, if industrial costs and prices rise, the wheat and cotton growers will have arguments for still higher loans. This is the danger which comes from making exceptions in favor of any group in the general effort to repress inflationary forces.

The American Farm Bureau Federation is quoted as estimating that the higher loans will add $724,000,000 to the income of the farmers. Part of the increase will come from consumers, the remainder from Treasury disbursements, adding to the deficit at a time when the needs for defense should inspire economy. The funds for the loans will not be included in the Treasury budget, since the Commodity Credit Corporation finances itself by independent borrowing, but the effect is the same. The total to be borrowed, and the difficulty of financing without recourse to inflationary methods, will be increased. The Treasury has a contingent liability, since it will have to meet any losses incurred by the Commodity Credit Corporation on the loans, and past experience indicates that losses may be considerable.

As for the support of prices of products needed for Great Britain, the circumstances

are fundamentally different. There is need for greater output of those products, and by offering support to the market the Department of Agriculture is providing the inducement to increase production. But there is no like reason for guaranteeing higher prices for cotton and wheat, for there is a surplus of both. To the extent that the higher prices keep people growing cotton and wheat, who should shift into other products, their effects will be detrimental to the Lease-Lend policy. Likewise, the country needs labor in the factories producing munitions more than on the farms growing surplus cotton and wheat.

Farmers Will Get Equivalent of Parity Price

The higher loans, together with the price adjustment and soil conservation payments which Congress has provided for cooperators in the A. A. A. program, will raise the return to the farmer on cotton, wheat and corn to the full equivalent of the parity price. This is shown by the following table:

	Wheat $ per bu.	Corn $ per bu.	Cotton ¢ per lb.
Loans at 85% of parity (as of Apr. 15)	.969	.704	13.60
Parity payments	.100	.050	1.38
Soil Conservation payments	.080	.090	1.37
Farmer's income	1.149	.844	16.35
Parity Farm Price, Apr. 15, 1941	1.140	.828	16.00

In signing the loan bill, President Roosevelt made it clear that in no case should farmers receive more than parity for the five basic crops, taking into consideration all three sources of revenue. He indicated that Congressional sponsors of the legislation had agreed to a scaling down of existing payments, if necessary to limit the return to the parity price; and the proposed increases in parity payments carried in the Agricultural Appropriation Act, now in conference, are expected to be abandoned.

Since the beginnings of the A. A. A., there have been few periods, and those short-lived, when cotton, wheat or corn growers have received the equivalent of parity prices. For those who have worked to establish parity the present legislation therefore represents a successful climax to eight years of effort. It will not be overlooked, however, that the parity is not attained through any natural adjustments between production and consumption which would establish it upon a sound and enduring basis, but entirely through government grants. One certain consequence of the new legislation is that more cotton, wheat and corn will move into the Commodity Credit Corporation's loan stocks, at higher prices. In due course commodities on which loans above their economic value are made tend to pass into the ownership of the Corporation through foreclosure, to be disposed of eventually at a loss. Meanwhile the effects of the price increases are felt throughout the economic structure.

The Loan Stocks

The first table below gives loans and holdings of the Corporation on April 30, 1941, showing the extent to which the Government is already involved, through past loans made on a much lower basis than those now authorized.

The financial commitments that the Corporation now has and the increase in borrowing authority that will be necessary are indi-

Loans and Holdings of the Commodity Credit Corp.
April 30, 1941

	Value (Millions of $)	Amount
Cotton on loan	176.8	3,538,441 bales
Cotton owned	361.2	6,170,662 "
Total Cotton	538.0	9,709,103 "
Wheat on loan	165.8	224,414,143 bus.
Wheat owned	23.9	29,399,985 "
Total Wheat	189.7	253,814,128 "
Corn on loan	191.2	299,109,424 bus.
Corn owned	159.2	221,845,811 "
Total Corn	350.4	520,955,235 "
Tobacco on loan	14.1	90,399,255 lbs.
Tobacco owned	70.4	291,077,124 "
Total Tobacco	84.5	381,476,379 "
All other loans*	31.6	
All other commodities owned†	33.2	
Total loans	579.5	
Total owned	647.9	
Grand Total	1,227.4	

*Includes barley, grain sorghums, hops, peanuts, pecans, prunes, raisins, rye, turpentine, and rosin.
†Includes peas and vetch, rubber, rye and other commodities.

Fiscal Position of the Commodity Credit Corp.
(In Millions of Dollars)

Capital outstanding		$ 100.0
Present loaning authority		1,400.0
Total loaning power		1,500.0
Loans made to April 30, 1941	$579.5	
Book value of commodities owned April 30, 1941	647.9	
Estimated loans to be made to July 1, 1941	41.6	
		1,269.0
Estimated available resources remaining July 1, 1941		231.0
Requested new borrowing authority		1,000.0
Total available resources July 1, 1941		1,231.0
Estimated 1941-42 disbursements*		
Cotton loans (5,000,000 bales)	325.0	
Corn loans (300,000,000 bu.)	190.0	
Wheat loans (350,000,000 bu.)	330.0	
Tobacco loans	70.0	
Rice loans	10.0	
Other loans	150.0	
Carrying charges	91.0	
Interest on notes outstanding and administrative expenses	15.0	
Loans to the A.A.A.	50.0	
Total disbursements		1,231.0

*Based on 75% of parity loans. 85% loans will require another $200,000,000.

cated by the second tabulation, based on testimony before the House Banking Committee. It will be observed that new authority to borrow $1 billion is requested to cover loans to be made, and that the calculation is made on a basis of loans at 75 per cent of parity instead of the 85 per cent loans now authorized. Thus the figure of $1 billion will have to be raised to $1.2 billions.

The amounts of cotton, wheat and corn expected to be offered for loans are of course hypothetical, since they will depend upon the size of the crops. The Corporation must be prepared not only to take off the market the surplus of the year's production above requirements, but to lend considerable amounts during the marketing season against supplies which may remain in the loan but a few months.

Crop Prospects

It is too early to estimate what any of the crops will be. The cotton crop, however, based upon the acreage fixed by the A.A.A., with average growing conditions will turn out around 12,000,000 bales. Probably this will be more than is required. The crop last Fall was 12,300,000 bales and it exceeded domestic and export requirements by nearly 2,000,000 bales. The current domestic use of cotton is by far the greatest on record; but it may not be as great in 1942, inasmuch as the output of cotton goods (apart from Army and Navy needs) is at a rate considerably in excess of normal requirements according to all past indications. If the war continues the export demand will be small. It seems probable, therefore, that the loan will not merely support the market but will attract a considerable amount of cotton.

The wheat surplus, with the new harvest only a short time away, is the largest ever known. The total carryover on July 1 will be about 395,000,000 bushels. The Winter wheat crop is good and the yield was estimated in the government's May 1 report at 653,000,000 bushels. Spring wheat is off to a good start and barring setbacks should yield around 200,000,000 bushels. This is a prospective total supply of 1,250,000,000, against domestic requirements of 650,000,000. Much of the indicated surplus of about 600,000,000 bushels will naturally remain lodged in the loan stock.

The carryover of corn into the next crop will also be a new high record, probably well over 700,000,000 bushels. There is a better chance of disposing of corn out of the government stock as time goes on, for it supplies the basis for the needed expansion in hog, dairy and poultry production. The special objection to the higher corn loan is the increased cost of feeding. Even last year's 61¢ corn loan was an obstacle to increasing pork production, for in the sections of the corn belt most distant from the packing centers it was more attractive for growers to accept the loan price and store their corn than to feed it and engage in breeding operations.

Disposition of Loan Stocks

No practicable plan for disposing of the commodities accumulated in these loan stocks has yet been devised. Distributions have been made for relief purposes; cotton has been bartered for rubber; export subsidies have been granted to keep the commodities moving in trade; attempts to make sales under various plans intended not to disturb the market have been tried. Some of these have had a measure of success but reductions in the loan stocks have been only temporary, for sooner or later bumper crops have come along again, and stocks have climbed up once more. After seven years of loan experience, the stocks remain as shown in the table, and the problem of their eventual disposition is as difficult as it was in the beginning.

The problem of the cotton stocks especially is a stubborn one. It is something to ponder that in only one season of the past five have exports of American cotton been as large as 6,000,000 bales, against the normal 8 to 9 million of the past; and in that season, 1939-40, they were fostered by a government subsidy and temporarily enlarged by the policy of Great Britain in building up a war reserve. This is suggestive as to the export subsidies that may be wanted after the war, for foreign cotton growers also are accumulating surpluses now.

A recent publication of the Department of Agriculture (Technical Bulletin No. 755, "Cotton Price Relationships and Outlets for American Cotton") attributes four-fifths of the shift from American cotton to foreign growths to advances in the price of American relative to other growths; and never before has the disparity between the respective prices been so great.

The Principle of Parity

The fact that after eight years of effort parity prices are now in sight only because the Government will support the markets and make cash payments to farmers, should invite a reexamination of the principle of parity and its practicability as a goal of agricultural policy. There is no dispute as to the fact that in 1933, when the principle was first embodied in the law, farm prices were at a disparity with prices of industrial goods. Admitting that the emergency action then taken was worth its cost, the concept of parity was a temporarily useful guide. However, there is a fundamental error in attempting to define parity in terms of price relations in any past period. Changes in price and income relationships between the various elements in the population are continuous and necessary, for they are the guides directing workers from one occupation into another. Balanced production among the various com-

modities and services, which is essential to prosperity, depends upon accepting the guidance of these changes. All inquiries into the situation have indicated that there are too many farmers growing wheat and cotton, but the measures to establish parity are for the purpose of making wheat and cotton growing more attractive. If more people wish to engage in these occupations than are needed, any guaranty of their income must necessarily be at the expense of other classes of the population.

To be sure, those who continue to grow wheat and cotton are required to reduce their acreage, with further cuts ordered this year. They may well reflect, however, upon the comments of Vice-President Wallace, who in his 1935 report as Secretary of Agriculture made a searching examination of the principle of parity. He said: "Parity prices established on a very high level through excessive reductions in the farm output would not last. Such prices can be attained but not maintained. Parity prices must harmonize with increasing consumption if they are to endure." Consumption this year is increasing, but parity prices are being attained not on that basis, but by government fiat and government funds, withholding the surplus production from the market.

Influence of Technical Progress

All technical or natural developments affecting production costs alter the parities. If the costs of farming are reduced the farmers can no longer expect nor do they need the same prices for their products. If one farmer can produce as much as two formerly did, both farmers cannot be maintained in the occupation except by reducing prices and increasing consumption, which means a change in the parities, or by grants from the rest of the population.

Production methods in agriculture are changing and improving constantly. In the Year Book of the Department of Agriculture for 1940, page 510 and following, it is pointed out that the proportion of workers engaged in agriculture decreased from one-half of all workers in 1870 to one-fifth in 1930, and that during the same period the average agricultural production per capita increased 22 per cent.

There has been no interruption of this technical progress since the base period of the farm act, 1909-1914, and the improved farm techniques and practices still are not utilized fully. New, better, and more productive varieties of crops have been developed. The use of fertilizers has increased, and better rotation and tillage practice further raises crop yields. Improved breeds of livestock and superior methods of feeding and care lead to more effective conversion of feeds into livestock products. In mechanical equipment, recent years have seen the development of lighter and more flexible tractors and implements, tractor-operated planters, new types of combines adapted to harvesting grass seeds and soy beans as well as small grains, corn pickers and pickup hay balers, among other things. The recital could be almost endless.

Due to these factors costs of farm production have been reduced, irrespective of costs of what the farmer buys. The April 1941 bulletin on "Farm Economics" of the New York State College of Agriculture at Cornell University gives figures on labor requirements, yields and costs of production of certain crops. They show that the labor time required to produce a bushel of wheat in 1939 was only two-fifths of what it was in 1914-18. The production per acre was higher and the cost, which takes account of the cost of machinery, was reduced by almost one-half. In corn for grain the labor time was cut by one-half between the two periods, and the production cost by over 40 per cent.

Considering changes of this magnitude, it should be plain that the relations of farm prices to other prices which maintained a balanced distribution of workers as between farm and non-farm occupations in 1909-14 are not necessarily the relationships needed to maintain a balanced distribution now. At bottom this is the explanation for the inability to raise prices to the calculated parity, and maintain them, on any sound and lasting basis. Also there is no way of assuring the farmer of parity income except through a government guaranty.

Over any long period a guaranty of equality for any of the occupations is impracticable. The effort of any particular group to attain it becomes general. This is illustrated in the present situation. The effect of the grant of farm parity is to raise the cost of living. Upon this labor bases claims for wage increases, which in turn raise the cost of industrial production, the prices of the things farmers buy, and therefore the "parities." In the long run efforts of groups to strengthen their position against other groups by legislative enactment must be futile, but they are costly while they last; and the present efforts will add immeasurably to the complexity of post-war problems.

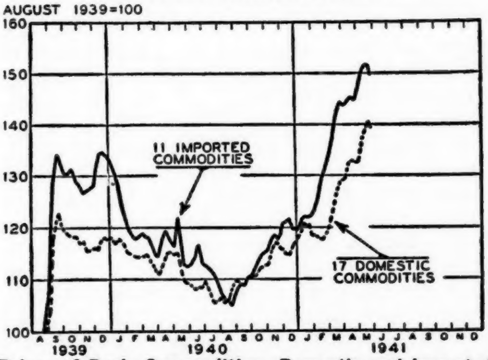
The Shipping Situation and Commodity Prices

The strain on shipping facilities throughout the world is one of the two major causes of the sharp rise in staple commodity prices during recent months, the other being the governmental policy of raising prices of domestic farm products, as already described. In most of the imported commodities which have advanced there is no shortage at the sources of supply; on the contrary, surpluses exist in many cases. However, the requirements of this

country for imported materials are the greatest in our history, the available shipping tonnage has been shrinking, costs of ship operation and freight and charter rates have been advancing, and shipping priorities and preferences are widespread.

Under these conditions it is only natural that demand should be augmented by forward buying, induced by fears of interruption in deliveries. To the extent that this buying leads to inventory accumulation, some relaxation of the pressure on shipping is possible. But in many staples requirements for consumption will increase rather than decrease, the Government is accumulating stockpiles of strategic materials, and for some time ahead shipping space is likely to become scarcer rather than more plentiful.

As will be seen from the accompanying chart, which shows the Bureau of Labor Statistics daily index of 28 basic commodities, prices of imported products are now 25 per cent above the January 1941 level. They have advanced faster than prices of domestic staples, so that the spread between the two is now practically the widest since the outbreak of the war.



Prices of Basic Commodities—Domestic and Imported
(Bureau of Labor Statistics Daily Index)

The Rise in Ocean Freight Rates

Since supply and demand for cargo space vary on each run, and advances in fuel and other vessel costs have not been uniform, the extent of the rise in ocean freight rates has varied widely between routes, as shown by the table below. The largest increase appears to be in conference rates from Indian ports, and the smallest in the South American routes. The tonnage available for charter in areas outside the war zone has dwindled to small figures, and rates per ton per month are now as high as $7 to $8.25, compared with the distress rates of $1 to $1.75 before the war.

In certain cases where the rush to buy commodities and obtain shipping space was temporarily overdone, rates have eased somewhat from the levels of a few weeks ago. Sugar is an example. The pre-war freight rate on sugar from Cuba to New York was usually around 12 to 14¢ per hundred pounds; a few weeks ago it rose as high as 56¢ and has since dropped to about 43¢.

Conference Shipping Rates

Commodity	To N. Y. from	Unit of Cargo	1939 August	1940 May	1941 May
Tin	Malaya & D.E.I.	Long ton	$25.00	$30.00	$45.00
Jute	India	40 cu. ft.	7.75	13.00	21.25
Burlap	India	40 cu. ft.†	10.00	16.00	25.00
Shellac	India	40 cu. ft. (cases)	10.50	16.50	26.00
Goatskins	India	14 cwt. (bales)	17.00	28.50	44.75
Rubber	Malaya & D.E.I.	50 cu. ft.	15.00	18.00	27.00
Cocoa	Brazil	Bag of 60 kg.	.60	.60	1.10
Cocoa	West Africa	Long ton	11.70	18.75	42.50
Coffee	Brazil	Bag of 60 kg.	.60	.70	1.10
Silk	Japan	100 lbs.	4.00	6.00	6.50
Wool	Argentina	40 cu. ft.‡	5.50*	10.00	20.00

† Or 16 cwt. ‡ Or long ton. *40 cu. ft. only.

Shift of American Vessels

Diversion of British and allied vessels from their pre-war routes, in order to meet British requirements, has left a gap in ocean-going services which the American merchant marine can fill only in part, despite the availability of the tonnage formerly employed in European services. Considerable American tonnage has been transferred to foreign registry. The accomplishment of American shipping, however, has been remarkable. In the last quarter of 1940 almost half of our total imports from non-European areas were brought by American vessels, in contrast with 31 per cent in 1939, and the proportion is steadily increasing.

Before the war American-flag vessels carried much less than half of our imports; in 1937, when the volume was somewhere near its present level, the proportion was about 30 per cent. Since then our tonnage employed in overseas trade has increased somewhat, to 2,577,000 tons as of March 31, 1941, and is being operated to capacity. Some of the shifts in our imports, however, have tended to offset these gains. Cargoes in general are now bulkier and imports have to be moved over greater distances.

The shift in the employment of the American merchant marine are shown in the table on the next page by semi-annual intervals from September 30, 1939, to March 31, 1941. It will be noted that the greatest change was an almost complete redistribution among the non-European runs of some 770,000 gross tons of American shipping which before the war had been employed on lanes to Europe and the Mediterranean regions of Africa and Asia.

American tonnage operated on the routes to Africa showed the greatest single increase — over 270 per cent. Through the use of faster ships and the chartering of vessels from other owners, actual sailings increased even more, rising from 24 per year before the war to 100 this year, in the case of the two American flag operators. From the Union of South Africa manganese and chrome ore have priority. British West Africa is sending us more manganese, and cocoa shipments have likewise

been breaking all previous records. Including imports from Brazil and Caribbean countries, more than a six months' supply of cocoa has now been built up.

Employment of American Merchant Vessels by Trade Routes

(In Thousands of Gross Tons)

	Sept. 30, 1939	Mar. 31, 1940	Sept. 30, 1940	Mar. 31, 1941
Western Hemisphere				
Canada and Caribbean	587	596	699	705
South America	837	509	435	495
Transatlantic				
Atlantic, Europe & Baltic	681	38	—	—
Mediterranean, Spain & Portugal	139	279	68	67
India	65	131	142	148
Africa	82	193	225	303
Transpacific				
Orient & Far East	184	452	499	573
Australasia	72	88	106	122
Around the World & Other	150	111	229	164
Total Foreign	2,247	2,397	2,403	2,577
Coastwise				
Atlantic & Gulf				
Dry cargo vessels	747	674	663	668
Tankers	1,822	1,995	1,692	1,912
Pacific	420	366	417	397
Intercoastal	1,069	855	820	712
Hawaii	300	221	319	304
Puerto Rico	113	133	114	121
Total Coastwise	4,471	4,244	4,025	4,114
Government service	7	6	12	33
Laid-up vessels	1,451	1,218	1,112	326*
Total American Fleet (excluding lake and river tonnage)	8,176	7,865	7,552	7,050

Source: Quarterly Reports of the U. S. Maritime Commission. Includes only vessels of 1000 gross tons and over. *Much of this laid-up tonnage has now been put into active service.

Situation in the Pacific

The Pacific has been one of the areas hardest hit by the scarcity of shipping. This resulted first from the withdrawal of Japanese tonnage to meet the growing requirements of the Army and to carry rice imports, and, since last June, from the gradual withdrawal of British merchant ships. According to the London Economist, over 60 per cent of British tonnage operating to and from China had been withdrawn by the end of 1940.

Moreover, the location in the Pacific area of a large number of strategic raw materials, tin, rubber, tungsten, chrome and manganese ore, and bauxite, all of which have priority for cargo space, has added to the acuteness of the situation. The American transpacific services, whose tonnage has been more than doubled during the war, have had more business than they could possibly handle. The American, British and Dutch Indian Governments have attempted to co-ordinate their shipping and to improve operating efficiency. Time is being saved by routing an increasing proportion of ships from the Far East to the Pacific Coast, rather than to Atlantic ports via the Panama Canal. Army transport ships carrying men and supplies to the Philippines bring back rubber and tin on their return voyage.

Despite the difficulties, the flow of strategic materials from transpacific areas has been maintained at a remarkable rate. In addition to supplying our present record consumption of rubber, enough has been imported to build up a stockpile equivalent to seven months' requirements, and tonnage has been arranged for to add steadily to the stockpile through the remainder of this year. Enough tin has been imported to raise visible and invisible supplies here to about one and one-half year's reserve. American ships are also carrying the bulk of the 250,000,000 lbs. of British-owned wool from Australia and New Zealand, which is being moved here to constitute an emergency stockpile.

The other side of this success in building up supplies of strategic materials is that the movement has been at the expense of less essential products, such as sugar, tobacco, coconut and palm oil, copra and paper. In fact, non-defense business in the Dutch East Indies, Thailand, Malaya and the Philippines recently has been almost at the mercy of chance in obtaining cargo space.

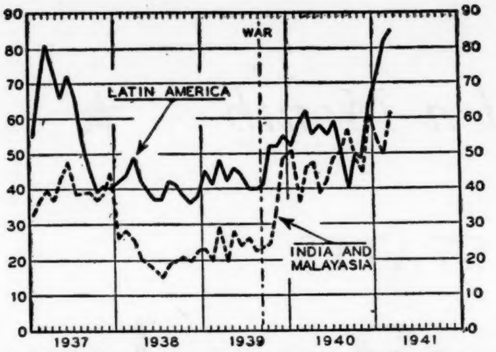
Imports from Latin-America

About 30 per cent more American flag tonnage has been attracted to Latin-American runs since the outbreak of the war. Sailings are more frequent, those of the Moore-McCormack Lines having increased from 48 per year before the war to 168 this year and of the Grace Line from about 100 to over 200. With these gains the shipping link between the United States and South America is possibly more effective than ever before. Nevertheless, priorities have been found advisable. The commodities enjoying priority include not only bauxite from British Guiana, copper, tin, lead and tungsten from the Andean republics and Mexico, manganese ore from Brazil, hides and wool from Argentina and Uruguay, but also coffee, cocoa and a number of other products which, although not directly needed for defense, were given preference in order to maintain purchasing power in the Latin American republics. Our record consumption of coffee has been more than met by imports, as has the record demand for wool and hides.

Reflecting heavy defense buying, our imports from Latin America showed a spectacular upswing during the first quarter of this year. As will be seen from the chart on the next page, they are now running at the rate of about $76,000,000 per month compared with $54,000,000 per month in 1940 and $42,000,000 in 1939.

Dislocation of International Trade

The dislocations in world trade, due both to the blockade of the European Continent and to the shipping situation, are extreme; and they create internal problems in many countries which cannot be wholly solved until trade



U. S. Imports from Latin America and India, Burma, British Malaya and the Netherlands East Indies. In Millions of Dollars.

and shipping conditions improve. International shipments of coal have become irregular and trade in corn, fresh fruit and oilcake for feeding livestock is almost to a standstill. The international movement of wheat, linseed, copra and vegetable oils has been severely curtailed, and heavy stocks are accumulating in primary countries, often forcing prices down at the same time that prices in consuming countries are rising.

Our heavy purchases from Latin America have helped to mitigate some of the difficulties created in those countries by the loss of European markets; and they have made possible moderation of exchange controls in certain cases. But countries like Argentina, dependent to a considerable extent on exports of bulky goods such as grains and meat, and on imports of coal and other raw materials, have had troublesome adjustments to make, and face continuous problems which they are making every effort to solve. To help themselves, Argentina, Brazil, Chile, Colombia and Peru are moving to expand their own merchant marines.

The decision of Great Britain to reduce imports of bulky agricultural products from Australia and New Zealand has created a problem of storing meats and butter. To spare shipping space, and to ameliorate economic difficulties, the British Government purchased and destroyed a part of the West African cocoa crop, also the banana crop in Jamaica.

Maritime Commission's Control Extended

How soon the shipping situation gets better, and whether it becomes worse first, will depend largely upon sinkings on the North Atlantic route, and upon the extent of aid to Great Britain on that route. The ship output of this country will increase continuously, but a long time evidently must elapse before replacements in world tonnage can catch up with the current rate of sinkings. This year's deliveries of new merchant vessels from American yards are expected to reach almost 1,000,000 tons compared with 445,000 in 1940. With shipyard facilities being continuously expanded, as much as 3,000,000 tons may be turned out in 1942.

The present system of shipping priorities was developed through informal cooperation between the shipping industry and the National Defense Commission last Winter. As the defense program accelerated and pressure for shipping on various routes was intensified, this cooperation was extended until today it involves about 60 commodities.

Following the President's request on April 30 for the creation of an emergency pool of 2,000,000 tons of merchant shipping to expedite the defense program and aid for Britain, the Maritime Commission served notice that rate advances beyond current levels would not be permitted. It may be found advisable, however, to permit advances in certain rates after proper hearings in order not to kill off initiative for the investment of new capital in the shipping industry. As the current issue of Marine Progress points out, the Government has been unable to protect the ship operators from rising costs for equipment and supplies and, most important of all, the added expense brought about by the demands of labor. The necessary statutory power to control freight and charter rates and all cargo space touching American ports, both domestic and foreign, through a ship "warrant" system, is proposed to be given to the Commission under the Bland Bill now before Congress. The issuance of warrants, entitling vessels to refueling and repair facilities, will be contingent upon reasonable freight rates and space allocation in favor of strategic materials.

About one-fourth of the 2,000,000 tons of shipping requested by the President will be made up of the foreign flag ships placed in protective custody by the Federal Government a few months ago, together with the few remaining laid-up American ships. Otherwise, the tonnage for the pool will come partly from new construction, but principally by drawing upon the inter-coastal and coastal fleet.

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